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TAGS: EAID, IDB

SUBJECT: MEETINGS OF IDB COMMITTEE OF BOARD OF GOVERNORS
AND WORKING GROUP ON BANK FUNCTIONS AND POLICIES

GENEVA FOR ASSEC BERGSTEN AND KATZ, MANILA FOR USADB,
ABIDJAN FOR USAFDF/HENNESEY, BRUSSELS INFO FOR USEEC,
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BEGIN SUMMARY:

1. THE MEETINGS OF BOTH THE IDB COMMITTEE OF THE BOARD OF GOVERNORS AND ITS WORKING GROUP ON FUNCTIONS AND POLICIES WERE HELD AT IDB HEADQUARTERS JUNE 29 AND 30 TO DISCUSS POLICY QUESTIONS RELATED TO REPLENISHMENT OF IDB RESOURCES. THE POLICY ISSUES, RAISED IN MADRID REPLENISHMENT MEETING AND PREVIOUSLY REPORTED IN REFTELS (B) AND (C), WERE THE PRINCIPAL FOCUS OF THE MEETINGS. OUR CONCERNS ON PROCEDURAL PROBLEMS PROVED UNNECESSARY. LEVELS OF FUNDING AND INDIVIDUAL SHARES OF THE REPLENISHMENT WERE NOT DISCUSSED.

2. AT THE URGING OF SOME REGIONAL MEMBERS, PARTICULARLY MEXICO, EARLY IN THE MEETINGS THE U.S. PUT FORWARD A NUMBER OF SPECIFIC PROPOSALS WITH THE COMMENT THAT THESE WERE PERHAPS NOT THE ONLY METHODS OF MEETING THE LIMITED OFFICIAL USE

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POLICY GOALS WE HAD SET FORTH IN THE MADRID MEETING AND

THAT WE WERE OPEN TO OTHER PROPOSALS. IN GENERAL THE US, CANADA, AND THE U.K. (REPRESENTING MOST NON-REGIONAL MEMBERS OF THE IDB) SUPPORTED CHANGES IN THE STRUCTURE AND NATURE OF IDB LENDING. THE LARGER REGIONAL COUNTRIES (ARGENTINA, BRAZIL AND MEXICO) ARGUED THAT THE BANK SHOULD CONTINUE LARGELY ON ITS PRESENT COURSE. THE SMALLER REGIONAL MEMBERS WERE NOT VERY VOCAL. IN SPITE OF DISAGREEMENT OVER SUBSTANCE, THE DEBATE WAS CONDUCTED WITHOUT RANCOR AS DELEGATES APPROACHED THE DISCUSSION SERIOUSLY AND IN A COOPERATIVE MANNER.

3. THE WORKING GROUP DRAFTED THE TEXT OF A REPORT WHICH WAS SUBSEQUENTLY APPROVED BY THE COMMITTEE AT THE END OF THE MEETING. THE REPORT IS NOTABLE FOR THE LACK OF CONSENSUS ON MOST OF THE POLICY ISSUES. THE WORKING GROUP ON THE REPLENISHMENT WILL MEET ON SEPTEMBER 5 BUT IT IS NOT CLEAR WHETHER OTHER GROUPS WILL MEET AT THE SAME TIME. JUDGING FROM THE RESULTS OF LAST WEEK'S MEETING, THE SEPTEMBER MEETING WILL LIKELY CONTINUE HARD BARGAINING BETWEEN THE U.S. AND OTHER MAJOR DONORS ON ONE HAND AND ARGENTINA, BRAZIL AND MEXICO ON THE OTHER. END SUMMARY.

4. SEVERAL GROUPS WERE INVOLVED IN DISCUSSION OF THE REPLENISHMENT. (A DESCRIPTION OF THE DIFFERENT GROUPS FOLLOWS:) THE COMMITTEE OF THE BOARD OF GOVERNORS PREPARES RECOMMENDATIONS FOR THE GOVERNORS ON MATTERS SPECIFICALLY ENTRUSTED TO IT BY THEM FROM TIME TO TIME. IT IS COMPOSED OF REPRESENTATIVES OF THOSE 12 COUNTRIES WHICH HAVE AN ELECTED EXECUTIVE DIRECTOR. THE WORKING GROUP ON FUNCTIONS AND POLICIES OF THE BANK WAS ESTABLISHED AT THE 1978 ANNUAL MEETING TO MAKE A LONG RANGE STUDY OF THE IDB'S FUNCTIONS AND POLICIES AND PROPOSE CHANGES IF NECESSARY. THIS GROUP IS APPOINTED BY THE COMMITTEE OF THE BOARD AND HAS THE SAME MEMBERSHIP. THE WORKING GROUP ON THE FIFTH REPLENISHMENT, WHICH MET IN MADRID, CONSISTS OF REPRESENTATIVES OF THE 22 COUNTRIES

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WHICH CONTRIBUTE CONVERTIBLE CURRENCY TO THE FSO.

5. THE JUNE MEETING OF THE WORKING GROUP ON F&P BEGAN WITH THE ELECTION OF THE GOVERNOR OF MEXICO AS CHAIRMAN AND THE GOVERNORS FOR HONDURAS AND THE U.K. AS VICE CHAIRMAN. MEMBERS WERE THEN REQUESTED TO SUBMIT COMMENTS ON THE AGENDA OF LONG RANGE ISSUES AND SUGGEST ANY ADDITIONS PRIOR TO AUGUST 31, 1978. AT THAT TIME A COMPLETE AGENDA OF TOPICS WILL BE DRAWN UP AND THE RELEVANT STUDIES UNDERTAKEN. AFTER RAPIDLY DISPENSING WITH THESE PRELIMINARIES, THE WORKING GROUP TURNED ITS ATTENTION TO THOSE ISSUES PROPOSED AT THE MADRID MEETING WHICH ARE DIRECTLY RELEVANT TO THE REPLENISHMENT.

6. DURING THE DISCUSSION OF THE POLICY ISSUES, THE U.S. RESTATED THE THRUST OF ITS POSITION AT MADRID -- THAT THE BANK MUST ADAPT ITSELF TO THE PRESENT AND DEVELOPING ROLE OF LATIN AMERICA IN THE WORLD ECONOMY -- AND OUTLINED GENERAL U.S. APPROACH AS PREVIOUSLY REPORTED REFTELS. AFTER REQUESTS BY SEVERAL COUNTRIES FOR SPECIFICS, THE U.S. DELEGATION CIRCULATED A BRIEF STATEMENT OF SPECIFIC PROPOSALS ON EACH ISSUE. (SEPTTEL PROVIDES TEXT OF STATEMENT.) THE U.S. REPEATEDLY STATED THAT THESE SPECIFIC PROPOSALS WERE PERHAPS NOT THE ONLY WAY OF MEETING THE CHALLENGES FACING THE BANK AND THE REGION, THAT WE WERE FLEXIBLE ON THE METHODS BY WHICH OUR GOALS COULD BE MET, THAT WE WERE PREPARED TO DISCUSS THEM IN DETAIL AND THAT WE WERE HOPEFUL OTHERS WOULD ALSO MAKE SPECIFIC PROPOSALS.

7. THE U.S. STATEMENT GROUPED OUR PROPOSALS INTO THREE BASIC CATEGORIES: -- ALLOCATION AND USE OF RESOURCES - GIVEN THE LIKELY SCARCITY OF CONCESSIONAL RESOURCES THERE IS A NEED FOR A CHANGE IN FSO ACCESS CRITERIA. THE U.S. PROPOSED A PER CAPITA INCOME STANDARD WITH POOREST

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COUNTRIES HAVING PRIORITY ACCESS, INCREASED CAPITAL BORROWING BY MIDDLE INCOME COUNTRIES TO COMPENSATE FOR THEIR REDUCED ACCESS TO FSO, AND INCREASED USE OF COMPLEMENTARY FINANCING FOR MORE DEVELOPED COUNTRIES TO MAINTAIN SATISFACTORY LEVELS OF CAPITAL FLOWS. WE ALSO PROPOSED THAT ONE-HALF OF IDB LENDING DURING REPLENISHMENT PERIOD BE FOR THE DIRECT BENEFIT OF LOW-INCOME RECIPIENTS USING A NARROWER DEFINITION THAN THE IDB NOW USES FOR LOW-INCOME RECIPIENTS.

-- EFFICIENCY OF RESOURCE UTILIZATION - THE U.S. STATED THAT EACH COUNTRY HAS A SOVEREIGN RIGHT TO DEFINE ITS DEVELOPMENT POLICIES AND PRIORITIES. THE IDB MUST TAKE INTO ACCOUNT IN ITS LOAN PROGRAM EACH BORROWER'S EFFORTS TO MEET ITS DEVELOPMENT GOALS, THE PRIORITY OF EACH LOAN IN THE OVERALL DEVELOPMENT PLAN AND THE ADEQUACY OF THE IMPLEMENTATION OF PREVIOUS PROJECTS IN THE SAME SECTOR. TO CONSERVE ITS CONVERTIBLE CURRENCY, THE BANK SHOULD USE ITS FOREIGN EXCHANGE TO FINANCE LOCAL COSTS AND INDIRECT FOREIGN EXCHANGE COSTS IN SPECIAL CASES ONLY, AND EVEN THEN IT SHOULD LIMIT THIS FINANCING TO A REASONABLE PORTION OF LOCAL EXPENSES INCURRED BY THE BORROWER, AS COMTEMPLATED IN THE CHARTER.

-- INCREASING AVAILABILITY OF USABLE RESOURCES - THE U.S. PROPOSED THAT ALL CONTRIBUTIONS TO THE REPLENISHMENT SHOULD BE MADE IN CONVERTIBLE CURRENCY OR IN NATIONAL CURRENCIES CONVERTIBLE ON DEMAND BY THE BANK AS NEEDED FOR DISBURSEMENTS. PAID-IN CAPITAL SHOULD BE KEPT AT THE

MINIMUM NECESSARY TO ASSURE INTEGRITY OF THE BANK. ALL COUNTRIES SHOULD CONTRIBUTE TO THE FSO IN FREELY USABLE CURRENCY, IF ONLY MODESTLY. GRADUAL STEPS SHOULD BE TAKEN TO CONVERT THE BANK'S EXISTING HOLDINGS OF NATIONAL CURRENCIES INTO FULLY USABLE RESOURCES. THE U.S. ALSO PROPOSED THAT MORE ADVANCED COUNTRIES RELINQUISH ACCESS

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TO THE EXPORT FINANCING PROGRAM THUS INCREASING RESOURCES AVAILABLE FOR LESS ADVANCED COUNTRIES.

8. THE U.S. STATEMENT REITERATED OUR POSITION AT MADRID THAT SUBSTANTIAL PROGRESS MUST BE MADE TOWARD FINAL AGREEMENT ON POLICY QUESTIONS BEFORE TAKING A POSITION REPLENISHMENT LEVELS.

9. THE U.S. STATEMENT PROVIDED A FOCUS FOR THE MEETING AND RESULTED IN A POINT BY POINT COMMENT BY MEXICO, INCLUDING THEIR DEEP CONCERN ABOUT REDUCING THE SHARE OF CAPITAL LENDING TO THE MORE ADVANCED COUNTRIES AND ABOUT PROPOSED REDUCTIONS IN LOCAL AND INDIRECT FOREIGN EXCHANGE COST FINANCING; THEIR UNWILLINGNESS TO GIVE UP ACCESS TO THE EXPORT CREDIT PROGRAM; AND THEIR DISAGREEMENT WITH THE 50 PERCENT TARGET FOR LENDING TO POOR. MEXICO ALSO EXPRESSED THE BELIEF THAT EACH COUNTRY SHOULD DECIDE IT OWN PRIORITIES AND NEEDS FOR BORROWING AND THAT AN ALL CONVERTIBLE CURRENCY REPLENISHMENT WOULD CREATE BALANCE OF PAYMENTS PROBLEMS FOR THE REGIONAL COUNTRIES.

10. BRAZIL ARGUED THAT CAPITAL SHOULD NOT BE SCARCE BECAUSE CALLABLE CAPITAL REQUIRES NO BUDGET OUTLAYS, THAT CAPITAL IMPORTING COUNTRIES SHOULD NOT HAVE TO CONTRIBUTE NON CONVERTIBLE CURRENCY, THAT 50 PERCENT TARGET FOR LENDING TO POOR IS WORTHY BUT WOULD REDUCE FLEXIBILITY OF BANK.

11. ARGENTINA FELT THE U.S. PROPOSALS WERE EXTREMELY BROAD AND WOULD CHANGE THE BASIC CHARACTER OF THE BANK AND THEREFORE SHOULD BE CONSIDERED IN A CONTEXT LARGER THAN THE REPLENISHMENT. IT ALSO ARGUED THAT MANY OF THE U.S. AND OTHER PROPOSALS WOULD ADVERSELY AFFECT ARGENTINE LIMITED OFFICIAL USE

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BENEFITS FROM THE BANK.

12. CANADA, IN GENERAL, SUPPORTED THE U.S. POSITION AND PUT FORTH SOME SPECIFIC PROPOSALS OF THEIR OWN, INCLUDING A SLIGHT MODIFICATION OF THE BANK'S PROPOSED SECTORAL TARGETS AND A REQUEST FOR A REGULAR MONITORING SYSTEM FOR THE BANK IN ORDER TO FOLLOW UP AND ENSURE ITS TARGETS ARE BEING MET. CANADA FELT THAT FSO ACCESS CRITERIA SHOULD TAKE INTO ACCOUNT THE PROBLEMS OF

THE ISLAND COUNTRIES; THAT THE MORE DEVELOPED COUNTRIES SHOULD MAINTAIN THEIR CURRENT ACCESS TO CAPITAL LENDING AS A GROUP BUT THAT, WITHIN THE GROUP, INDIVIDUAL ACCESS SHOULD FLUCTUATE ACCORDING TO NEED. CANADA ALSO EXPRESSED THE BELIEF THAT EXPORT FINANCING FOR THE MORE ADVANCED COUNTRIES SHOULD BE PHASED OUT; THAT FUTURE FSO CONTRIBUTIONS OF THE REGIONAL COUNTRIES SHOULD HAVE A HIGHER DEGREE OF CONVERTIBILITY THAN PREVIOUSLY, BUT NOT NECESSARILY BE FULLY CONVERTIBLE; THAT THE REGIONAL COUNTRIES MIGHT PROVIDE A SMALLER PERCENTAGE OF THE PAID-IN CAPITAL THAN THE DEVELOPED MEMBERS; THAT NATIONAL CURRENCIES IN THE BANK MIGHT BE LENT ON IDA TERMS AND

THAT THE BIDDING MARGIN OF PREFERENCE SHOULD BE ELIMINATED FOR THE MORE DEVELOPED COUNTRIES.

13. THE U.K., REPRESENTING MOST OF THE NON-REGIONALS, AGREED THAT FSO ACCESS SHOULD BE BASED ON COUNTRY NEED BUT FELT THAT THE U.S. PER CAPITA PROPOSAL WAS TOO RIGID AND THAT COMPLEMENTARY FINANCING MIGHT BE MORE VALUABLE FOR THE MIDDLE INCOME COUNTRIES THAN FOR THE MORE ADVANCED. THE U.K. SUPPORTED PROPOSALS TO REDUCE THE IDB'S EXPORT FINANCING PROGRAMS AS WELL AS PROPOSALS TO REDUCE LOCAL AND INDIRECT FOREIGN EXCHANGE FINANCING. THE U.K. AGREED ON THE DESIRABILITY OF TARGETS FOR LENDING TO POOR AND SUGGESTED THAT EACH LOAN DOCUMENT PRESENTED TO THE BOARD DISCUSS LIKELY BENEFICIARIES OF EACH PROJECT.

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14. OTHER COUNTRIES WERE LESS VOCAL. VENEZUELA SPOKE OF THE NEED FOR MORE ADVANCED COUNTRIES, AS THEY PROGRESS, TO ALLOW GREATEST ACCESS TO BANK RESOURCES TO THOSE MOST IN NEED. COSTA RICA ARGUED FOR PROJECT CRITERIA FOR THE FSO FINANCING. JAMAICA MAINTAINED THAT SMALL COUNTRIES NEED FSO BECAUSE THEY HAVE FEW, IF ANY ALTERNATIVES. THEY ALSO ARGUED THAT COUNTRIES WITH LIMITED MARKETS SHOULD HAVE FSO ACCESS.

15. MUCH OF FRIDAY, JUNE 30, A DRAFTING GROUP MET TO REACH AGREEMENT ON THE TEXT OF THE WORKING GROUP'S REPORT. THE FULL WORKING GROUP RECONVENED THAT AFTERNOON TO DISCUSS AND FINISH DRAFTING THE REPORT. (SEPTTEL PROVIDES TEXT OF REPORT AS FINALLY ADOPTED.) ALTHOUGH AGREEMENT WAS REACHED ON A FEW POLICY ISSUES, ON OTHERS THE MOST THAT COULD BE ACCOMPLISHED WAS AGREEMENT TO DISAGREE. IN SPITE OF THE LACK OF CONSENSUS ON SUBSTANCE, THE DEBATE WAS CONDUCTED WITHOUT RANCOR AS DELEGATES APPROACHED THE DISCUSSION SERIOUSLY AND IN A COOPERATIVE MANNER.

16. THE REPORT LISTS THE CONCLUSIONS REACHED BY THE WORKING GROUP ON GENERAL ISSUES WHICH WERE RAISED AT THE MADRID MEETING:

-- THE WORKING GROUP ACCEPTED AS INDICATIVE TARGETS THE BANK'S PROPOSED SECTORAL ALLOCATION OF LENDING FOR ITS 1979-82 PROGRAM (RURAL DEVELOPMENT: 30-35 PERCENT OF LENDING; URBAN DEVELOPMENT 10-15 PERCENT; ENERGY AND HYDROLOGICAL RESOURCES: 25 PERCENT; PROJECTS FOR STRENGTHENING THE EXTERNAL SECTOR -- EITHER BY INCREASING EXPORTS OR SUBSTITUTING FOR IMPORTS; 20-25 PERCENT; AND ANY REMAINDER FOR PROJECTS TO ELIMINATE BOTTLENECKS IN CERTAIN

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COUNTRIES, E.G., TRANSPORTATION, COMMUNICATIONS, PREINVESTMENT, UNIVERSITY LEVEL EDUCATION, ETC.).

-- IT WAS ALSO AGREED THAT THE BANK SHOULD INTENSIFY ITS EFFORTS TO BENEFIT LOW-INCOME GROUPS DURING THE PERIOD OF THE NEXT REPLENISHMENT. THE BANK WILL DEFINE LOW-INCOME TARGET GROUPS AND AIM AT DEVOTING ONE-HALF OF ITS LENDING (CAPITAL AND FSO) TO PROJECTS WHICH BENEFIT THESE GROUPS.

-- THE BANK WILL ISSUE AN ANNUAL REPORT ANALYZING PROGRAM APPROVALS IN TERMS OF SECTORS AND IMPACT ON LOW-INCOME GROUPS.

-- NO CLEARCUT AGREEMENT WAS REACHED ON THE QUESTION OF COUNTRY ACCESS TO IDB FINANCING. IT WAS AGREED THAT FSO LENDING SHOULD BE CONCENTRATED ON THE LESS DEVELOPED COUNTRIES OF THE REGION BUT THERE WAS NO CONSENSUS ON HOW OR WHETHER CHANGES SHOULD BE MADE IN THE EXISTING ACCESS CRITERIA IN ORDER TO ACCOMPLISH THIS OBJECTIVE- IT WAS ONLY AGREED TO REVIEW THE EXISTING CATEGORIZATION OF COUNTRIES AND TO INVESTIGATE THE IMPLICATION OF USING DIFFERENT DEVELOPMENT INDICATORS, INCLUDING PER CAPITA INCOME CRITERIA AS PROPOSED BY THE U.S., TO DETERMINE ACCESS TO FSO FINANCING. WITH RESPECT TO THE CAPITAL WINDOW, THERE WAS NO AGREEMENT ON WHETHER THE AMOUNT OF LENDING TO THE MOST ADVANCED COUNTRIES OF THE REGION SHOULD REMAIN AT ITS PRESENT LEVEL, AS PROPOSED BY CANADA, OR WHETHER THEIR PROPORTIONATE SHARE OF LENDING SHOULD BE MAINTAINED. IT WAS AGREED THAT COMPLEMENTARY FINANCING OF IDB PROJECTS FROM OTHER SOURCES MAY CONSTITUTE AN ADDITIONAL SOURCE OF FUNDS BUT SHOULD NOT BE TAKEN AS A SUBSTITUTE FOR BANK LENDING. NO CONSENSUS WAS REACHED ON PROPOSALS TO EXPAND THE EXPORT CREDIT PROGRAM (MEXICO) AND FOR THE MOST ADVANCED COUNTRIES TO RELINQUISH ACCESS TO THAT PROGRAM (US).

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THE QUESTION OF THE DESIRABILITY OF HAVING THE DEVELOPING COUNTRIES INCREASE THE PERCENTAGE OF THEIR CONTRIBUTIONS PAID IN FREELY CONVERTIBLE CURRENCIES, RAISED BY THE US, CANADA AND SOME NON-REGIONAL MEMBERS, WAS LEFT UNRESOLVED. AS SUGGESTED BY MEXICO, THIS WILL PROBABLY BE SETTLED IN THE GENERAL NEGOTIATIONS OF THE FIFTH REPLENISHMENT.

IT WAS AGREED THAT THE BANK SHOULD STUDY THE IMPLICATIONS OF GRADUALLY CONVERTING EXISTING UNUSED BALANCES OF NON-CONVERTIBLE CURRENCIES INTO OTHER CURRENCIES, A US PROPOSAL SUPPORTED BY CANADA, THE UK, AND OTHER NON-REGIONAL MEMBERS BUT OPPOSED BY MEXICO, BRAZIL AND ARGENTINA. THE BRAZILIAN REP INITIALLY OPPOSED EVEN THE STUDY SAYING IT SHOULD NOT BE MADE A SINE QUA NON FOR THE FIFTH REPLENISHMENT. THE ARGENTINE DEL STATED THAT THE STUDY MIGHT REQUIRE MORE TIME THAN AVAILABLE BETWEEN NOW AND SEPT, AND SHOULD DISCUSS NOW CONVERTIBILITY COULD BE ACHIEVED WITH THE LEAST POSSIBLE HARM TO THE DEVELOPING COUNTRIES.

NO AGREEMENT WAS REACHED ON THE PROPOSAL TO REDUCE THE FOREIGN EXCHANGE FINANCING GRANTED TO THE MOST ADVANCED COUNTRIES FOR LOCAL COSTS AND INDIRECT FOREIGN EXCHANGE COSTS.

THE BANK WILL STUDY THE POSSIBILITY RAISED BY MEXICO THAT THE BANK'S LIQUID ASSETS MAY BE INVESTED IN THE DEVELOPING COUNTRIES AS WELL AS THE INDUSTRIALIZED COUNTRIES.

17. ON MOST ISSUES THE MAJOR DIFFERENCES WERE BETWEEN THE US, CANADA, THE UK AND OTHER NON-REGIONAL LIMITED OFFICIAL USE

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MEMBERS ON THE ONE HAND AND MEXICO, BRAZIL AND ARGENTINA ON THE OTHER, SINCE AS THE MAJOR BORROWERS AND POTENTIALLY SIGNIFICANT DONORS MANY OF THE PROPOSED CHANGES WOULD IMPACT MOST ON THEM. THE OTHER MEMBERS WERE ONLY ACTIVE ON QUESTIONS WHICH CLEARLY DIRECTLY INVOLVED THEIR INTERESTS. FOR EXAMPLE, JAMAICA, COST RICA, PANAMA AND THE BAHAMAS, AMONG OTHERS, MADE INTERVENTIONS OPPOSING THE USE OF PER CAPITA GNP AS THE DETERMINING FACTOR FOR FSO ACCESS AND ARGUED FOR THE CONTINUING USE OF THE LIMITED MARKET CONCEPT. BOLIVIA AND HONDURAS SUPPORTED INCREASED LENDING FOR THE POOR.

18. ALTHOUGH PROGRESS WAS MADE ON SOME ISSUES (INCREASED EMPHASIS ON LENDING TO THE POOR, SECTORAL LENDING TARGETS) WE DO NOT FEEL THAT SUFFICIENT PROGRESS HAS BEEN MADE TO WARRANT TAKING A POSITION ON REPLENISHMENT LEVELS AT THE NEXT MEETING OF THE REPLENISHMENT WORKING GROUP SCHEDULED FOR EARLY SEPT. WE WILL ENCOURAGE THE BANK TO COMPLETE THE REQUESTED STUDIES ON OUTSTANDING ISSUES BY THAT TIME, SINCE IT IS EXTREMELY IMPORTANT THAT THESE ISSUES BE RESOLVED AT THAT MEETING IF THE REPLENISHMENT NEGOTIATIONS ARE TO BE COMPLETED ON

SCHEDULE.

19. AT THIS STAGE, IT APPEARS THAT MORE HARD BARGAINING MUST TAKE PLACE BETWEEN THE US AND OTHER DONORS ON THE ONE HAND AND ARGENTINA, BRAZIL AND MEXICO ON THE OTHER. THE INTERVAL BETWEEN NOW AND SEPT WILL ALLOW ALL MEMBERS AMPLE TIME TO ASSESS THEIR OWN AND OTHER COUNTRIES' POSITIONS. WE ARE CONSIDERING SPECIFIC NEGOTIATING STRATEGY FOR THIS PERIOD. (EMBS SHOULD NOT ATTEMPT TO CARRY FORWARD NEGOTS.) WE CONTINUE TO BELIEVE THAT THE PROPOSALS PUT FORWARD BY THE US PROVIDE A USEFUL BASIS FOR DISCUSSION AND WE WELCOME THE SPECIFIC COMMENTS AND SUGGESTIONS OF THEIRS, WHICH THEY MAY WISH TO TRANSMIT TO US THROUGH YOU RATHER THAN THEIR LIMITED OFFICIAL USE

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IDB EXECUTIVE DIRECTORS. EMBS SHOULD REMAIN ALERT FOR AND REPORT ANY HOST GOVT OFFICIALS' REACTIONS TO US PROPOSALS OR THE RECENT MEETING. IF ASKED, YOU MAY STATE THAT FURTHER PROGRESS ON THESE POLICY ISSUES IS NECESSARY BEFORE THE US CAN TAKE A POSITION ON LEVELS OF REPLENISHMENT. VANCE

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